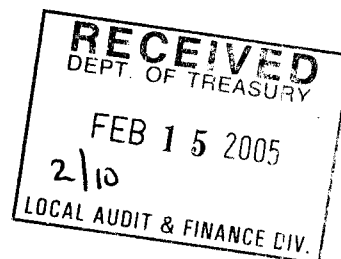


CITY OF DETROIT DOWNTOWN
DEVELOPMENT AUTHORITY
(A Component Unit of the
City of Detroit, Michigan)

FINANCIAL STATEMENTS

June 30, 2004 and 2003



CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

August 13, 2004

To the Board of Directors
City of Detroit Downtown Development Authority
Detroit, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Detroit Downtown Development Authority ("DDA"), a component unit of the City of Detroit, Michigan, as of, and for the years ended, June 30, 2004 and 2003, which collectively comprise DDA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of DDA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of DDA as of June 30, 2004 and 2003, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and schedule of revenue and expenditures - budget and actual (general fund) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



CERTIFIED PUBLIC ACCOUNTANTS

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2004

This section of the annual report of the City of Detroit Downtown Development Authority ("DDA") presents management's discussion and analysis of DDA's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with DDA's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

DDA continued its work in the downtown Detroit area. The Lower Woodward Improvement program and the Book Cadillac project moved into positions of prominence. Campus Martius and the East Riverfront Roads continued. Project costs were up from the previous year as activity increased. Net assets decreased as activity on the projects increased.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains two types of financial statements. The statements of net assets and statements of activities (which are presented on pages 7 and 8) are considered government-wide financial statements. The balance sheets and statements of revenue, expenditures, and fund balances for governmental funds (which are presented on pages 9, 10, and 12) are considered fund financial statements. A further discussion of each type of statement follows.

Government-Wide Financial Statements

The government-wide financial statements report information about DDA as a whole using accounting methods similar to those used by private-sector companies and non-profit organizations. The statements of net assets include all of DDA's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statements of activities, regardless of when cash is received or paid.

The two government-wide financial statements report DDA's net assets and how they have changed. Net assets represent the difference between DDA's assets and liabilities, and they represent one way to measure DDA's financial health, or position. Over time, increases or decreases in DDA's net assets are an indicator of whether its financial health is improving or deteriorating.

Fund Financial Statements

The fund financial statements provide more detailed information about DDA's funds, not DDA as a whole. Funds are accounting devices that DDA uses to keep track of specific sources of funding and spending for particular purposes.

Most of DDA's activities are included in governmental funds, which focus on how cash, and other financial assets that can be readily converted to cash, flow in and out, and show the balances left at the end of the year that are available for spending.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2004

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (continued)

As such, the fund financial statements provide a detailed short-term view that shows whether there are more or fewer financial resources that can be spent in the near future to finance DDA's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on pages 11 and 13 that explains the relationship between the fund financial statements and the government-wide financial statements.

The notes to the financial statements, which begin on page 14, explain some of the information in the financial statements and provide more detailed data. A comparison of DDA's general fund revenue and expenditures to its budget is provided on page 36.

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

Table 1 reflects the condensed statements of net assets as of June 30, 2004 and 2003:

Table 1
Statements of Net Assets
June 30, 2004 and 2003
(in millions of dollars)

	<u>2004</u>	<u>2003</u>
Assets:		
Cash and investments	\$ 118.8	\$ 125.8
Notes receivable	31.9	40.2
Capital assets	33.1	33.9
Other assets	46.6	55.5
Total Assets	<u>230.4</u>	<u>255.4</u>
Liabilities:		
Long-term liabilities:		
Due or expected to be paid within one year	10.5	9.9
Due or expected to be paid in more than one year	167.8	178.3
Other liabilities	16.0	9.5
Total Liabilities	<u>\$ 194.3</u>	<u>\$ 197.7</u>

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2004

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 1
Statements of Net Assets (continued)
June 30, 2004 and 2003
(in millions of dollars)

	<u>2004</u>	<u>2003</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 33.1	\$ 33.9
Restricted for development	1.6	22.6
Unrestricted	<u>1.4</u>	<u>1.2</u>
Total Net Assets	<u>\$ 36.1</u>	<u>\$ 57.7</u>

The net assets of DDA decreased 37 percent to \$36.1 million. This decrease is principally attributable to increased spending on project costs for the Lower Woodward Improvement program, and the Book Cadillac project, as well as decreased contract revenue as the Campus Martius project and East Riverfront Roads project have continued.

Decreases in assets have occurred because of the cash spent on DDA's various development projects, as well as because of an increase in the loan loss reserve for the Riverfront Tower notes receivable, which has the effect of decreasing the net value of notes receivable. As of June 30, 2003, DDA had a receivable on its books for property taxes due from the City. As of June 30, 2004, the City's property tax payment had already been received, which resulted in a decrease in other assets.

The only significant changes in liabilities are the decrease in long-term liabilities, which decreased \$9.9 million in accordance with the debt service schedule on bonds contract payable, and the increase in other liabilities, due to school taxes that will need to be refunded to the State of Michigan as a result of the 1994 Proposal A legislation.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2004

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 2 reflects the condensed statements of activities for the years ended June 30, 2004 and 2003:

Table 2**Statements of Activities****For the Years Ended June 30, 2004 and 2003***(in millions of dollars)*

	<u>2004</u>	<u>2003</u>
Revenue:		
Program revenue:		
Program grants	\$ -0-	\$ 1.5
Other program revenue	11.1	22.1
General revenue:		
Property taxes	29.1	31.7
Other revenue	0.7	0.4
Total Revenue	40.9	55.7
Expenses:		
Economic development	62.5	37.1
Net Increase (Decrease) in Net Assets	(21.6)	18.6
Net Assets, Beginning of Year	57.7	39.1
Net Assets, End of Year	\$ 36.1	\$ 57.7

The principal changes in this table are the decrease in other program revenue and the increase in project costs and the allowance for doubtful loans. As detailed earlier, the decrease in revenue is due to the winding down of some existing projects and the corresponding decrease in contract revenue related to those projects. The increase in project costs has occurred as DDA has spent some of its reserves on the Book Cadillac and Lower Woodward projects. The increase in the allowance for doubtful loans is due to the uncertainty surrounding the likelihood of full repayment to DDA for its involvement in the Riverfront Towers project.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

June 30, 2004

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

The following are highlights of the comparison of DDA's general fund revenue and expenditures to its budget, as shown on page 36:

1. DDA holds title to the Kennedy Square Garage. DDA has received more revenue than expected from the garage, resulting in a positive variance in other revenue.
2. Administrative and operating expenses did not meet budgeted levels due to tight control over contingency based expenses in the general fund. Professional fees were slightly higher than budgeted due to increased insurance and other fees.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

As of June 30, 2004, DDA held capital assets of \$33.1 million. This balance consisted primarily of various parcels of land, as well as over \$25 million invested in the Campus Martius Garage.

DDA had \$175 million in bonds outstanding as of June 30, 2004, which is a decrease of five percent from June 30, 2003. The decrease is due to debt service payments on the bonds, which were made in accordance with the schedule of payments required in the bond issuance. On July 1, 2004, a scheduled debt service payment was made, further decreasing the outstanding balance of the bonds. This activity is summarized in Note H to the financial statements.

ECONOMIC FACTORS

DDA receives a large majority of its revenue through tax receipts. The economic health of the downtown area has a substantial impact on the level of revenue received. The rebirth of downtown Detroit continues and, as long as it does, DDA should continue to be funded adequately. Projects such as the Campus Martius project and the Lower Woodward Improvement program should aid in improving the future of downtown Detroit.

The DDA operating budget will increase by approximately seven percent for the fiscal year ending June 30, 2005. This is mainly a reflection of the increased revenue attributable to the Kennedy Garage and project costs related to it.

FINANCIAL CONTACT

This financial report is designed to present its users with a general overview of DDA's finances and to demonstrate DDA's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the office of the chief financial officer of Detroit Economic Growth Corporation, 500 Griswold, Suite 2200, Detroit, Michigan 48226.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENTS OF NET ASSETS

June 30, 2004 and 2003

	Governmental Activities	
	2004	2003
Assets:		
Cash	\$ 1,428,134	\$ 876,722
Escrow deposits (Note A)	109,884	109,884
Investments (Note A)	117,268,182	124,863,176
Accounts and contracts receivable (net of allowance of \$36,661 and \$44,815 in 2004 and 2003, respectively)	772,684	768,803
Property taxes receivable, net (Note C)	4,748,316	13,582,660
Accrued interest receivable, net (Note B)	1,169,799	1,000,652
Notes receivable, net (Notes A and B)	31,896,225	40,177,638
Due from City of Detroit (Note E)	33,600,000	33,600,000
Prepaid expenses	109,708	117,287
Unamortized bond and note issue costs (Note A)	3,631,939	3,793,918
Land contract receivable (no allowance considered necessary (Note F)	1,820,200	1,820,200
Capital assets (Note D):		
Nondepreciable capital assets	7,544,670	7,544,670
Depreciable capital assets, net	25,532,150	26,393,364
Other assets (Note G)	736,003	736,003
Total Assets	230,367,894	255,384,977
Liabilities:		
Accounts payable	2,182,170	1,427,712
Accrued interest payable	6,617,492	6,926,594
Due to other governmental agencies	735,392	636,963
Property tax advances (Note C)	6,410,873	500,000
Other liabilities (Note I)	16,870	16,800
Long-term liabilities (Note H):		
Due or expected to be paid within one year	10,477,697	9,879,697
Due or expected to be paid in more than one year	167,780,467	178,258,164
Total Liabilities	194,220,961	197,645,930
Net Assets:		
Invested in capital assets, net of related debt	33,076,820	33,938,034
Restricted for development	1,622,333	22,575,462
Unrestricted	1,447,780	1,225,551
Total Net Assets	\$ 36,146,933	\$ 57,739,047

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2004 and 2003

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Expenses:		
Economic development program:		
Project costs	\$ 35,530,569	\$ 13,105,364
Administrative and operating expenses (Note A)	3,097,881	3,822,963
Interest expense	13,234,979	13,853,184
Professional fees	346,987	360,049
Provision for uncollectible loans and taxes (Notes B and C)	9,185,421	5,458,597
Amortization of bond and note issue costs (Note A)	161,979	161,979
Depreciation (Note D)	906,080	288,622
Total Program Expenses	<u>62,463,896</u>	<u>37,050,758</u>
Program Revenue:		
Economic development program:		
Program grants	-0-	1,431,520
Other program revenue	11,095,995	22,095,771
Total Program Revenue	<u>11,095,995</u>	<u>23,527,291</u>
Net Program Expense	<u>51,367,901</u>	<u>13,523,467</u>
General Revenue:		
Property taxes (Note C)	29,101,165	31,744,963
Other revenue	674,622	389,611
Total General Revenue	<u>29,775,787</u>	<u>32,134,574</u>
Net Increase (Decrease) in Net Assets	<u>(21,592,114)</u>	<u>18,611,107</u>
Net Assets, Beginning of Year	57,739,047	39,127,940
Net Assets, End of Year	<u>\$ 36,146,933</u>	<u>\$ 57,739,047</u>

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

BALANCE SHEETS - GOVERNMENTAL FUNDS

June 30, 2004 and 2003

	2004				2003			
	General Fund	Development Fund	Debt Service Fund	Total All Funds	General Fund	Development Fund	Debt Service Fund	Total All Funds
ASSETS								
Cash	\$ 55,676	\$ 1,372,458	\$ -0-	\$ 1,428,134	\$ 33,681	\$ 843,041	\$ -0-	\$ 876,722
Escrow deposits (Note A)		109,884		109,884		109,884		109,884
Investments (Note A)	925,003	103,494,373	12,848,806	117,268,182	998,699	120,473,550	3,390,927	124,863,176
Accounts and contracts receivable (net of allowance of \$36,661 in 2004 and 2003 in the general fund, and \$-0- and \$8,154 in 2004 and 2003, respectively, in the development fund)	39,423	733,261		772,684	35,542	733,261		768,803
Property taxes receivable, net (Note C)	501,933		4,246,383	4,748,316	167,296		13,415,364	13,582,660
Accrued interest receivable, net (Note B)		1,169,799		1,169,799		1,000,652		1,000,652
Notes receivable, net (Notes A and B)		31,896,225		31,896,225		40,177,638		40,177,638
Due from City of Detroit (Note E)		33,600,000		33,600,000		33,600,000		33,600,000
Prepaid expenses	109,708			109,708	117,287			117,287
Other assets (Note G)		736,003		736,003		736,003		736,003
Total Assets	\$ 1,631,743	\$ 173,112,003	\$ 17,095,189	\$ 191,838,935	\$ 1,352,505	\$ 197,674,029	\$ 16,806,291	\$ 215,832,825

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY
BALANCE SHEETS - GOVERNMENTAL FUNDS (CONTINUED)

June 30, 2004 and 2003

	2004				2003			
	General Fund	Development Fund	Debt Service Fund	Total All Funds	General Fund	Development Fund	Debt Service Fund	Total All Funds
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ 67,300	\$ 2,114,870	\$ -0-	\$ 2,182,170	\$ 51,954	\$ 1,375,758	\$ -0-	\$ 1,427,712
Accrued interest payable			6,617,492	6,617,492			6,926,594	6,926,594
Due to other governmental agencies	116,663	618,729		735,392	75,000	561,963		636,963
Property tax advances (Note C)		6,410,873		6,410,873		500,000		500,000
Maturing bonds contract payable (Note H)			10,477,697	10,477,697			9,879,697	9,879,697
Other liabilities (Note I)		16,870		16,870		16,800		16,800
Total Liabilities	183,963	9,161,342	17,095,189	26,440,494	126,954	2,454,521	16,806,291	19,387,766
Fund Balances:								
Reserved for development		163,950,661		163,950,661		195,219,508		195,219,508
Unreserved	1,447,780			1,447,780	1,225,551			1,225,551
Total Fund Balances	1,447,780	163,950,661	-0-	165,398,441	1,225,551	195,219,508	-0-	196,445,059
Total Liabilities and Fund Balances	\$ 1,631,743	\$ 173,112,003	\$ 17,095,189	\$ 191,838,935	\$ 1,352,505	\$ 197,674,029	\$ 16,806,291	\$ 215,832,825

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**RECONCILIATIONS OF GOVERNMENTAL FUNDS BALANCE SHEETS TO
STATEMENTS OF NET ASSETS**

June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Total Fund Balances, Governmental Funds	\$ 165,398,441	\$ 196,445,059
<p>Amounts reported for governmental activities in the statements of net assets differ from amounts reported in the governmental funds balance sheets due to the following:</p>		
<p>Long-term accounts receivable applicable to governmental activities are not due and collectible in the current period and, therefore, are not reported in the funds. These assets consist of the following:</p>		
Land contract receivable	1,820,200	1,820,200
<p>Long-term costs used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of the following:</p>		
Unamortized bond and note issue costs	3,631,939	3,793,918
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of the following:</p>		
Nondepreciable capital assets	7,544,670	7,544,670
Depreciable capital assets:		
Cost	26,823,841	26,778,975
Less: Accumulated depreciation	(1,291,691)	(385,611)
<p>Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of the following:</p>		
Contract and bonds contract payable	(167,780,467)	(178,258,164)
Total Net Assets, Governmental Activities	\$ 36,146,933	\$ 57,739,047

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Years Ended June 30, 2004 and 2003

	2004				2003			
	General Fund	Development Fund	Debt Service Fund	Total All Funds	General Fund	Development Fund	Debt Service Fund	Total All Funds
Revenue:								
Property taxes (Note C)	\$ 799,162	\$ 17,824,306	\$ 10,477,697	\$ 29,101,165	\$ 1,061,294	\$ 20,803,972	\$ 9,879,697	\$ 31,744,963
Grants				-0-		1,431,520		1,431,520
Other revenue	674,622	11,095,995		11,770,617	389,611	22,095,771		22,485,382
Total Revenue	1,473,784	28,920,301	10,477,697	40,871,782	1,450,905	44,331,263	9,879,697	55,661,865
Expenditures:								
Current:								
Project costs		35,530,569		35,530,569		17,061,261		17,061,261
Administrative and operating expenses (Note A)	1,857,702	1,240,179		3,097,881	1,496,100	2,326,863		3,822,963
Interest expense		13,234,979		13,234,979		13,853,184		13,853,184
Professional fees	346,987			346,987	360,049			360,049
Provision for uncollectible loans and taxes (Notes B and C)		9,185,421		9,185,421		5,458,597		5,458,597
Debt service (Note H)			10,477,697	10,477,697			9,879,697	9,879,697
Capital outlay (Note D)		44,866		44,866		8,710,324		8,710,324
Total Expenditures	2,204,689	59,236,014	10,477,697	71,918,400	1,856,149	47,410,229	9,879,697	59,146,075
Excess (Deficiency) of Revenue over Expenditures	(730,905)	(30,315,713)	-0-	(31,046,618)	(405,244)	(3,078,966)	-0-	(3,484,210)
Other Financing Sources (Uses):								
Interfund transfers	953,134	(953,134)		-0-	490,000	(490,000)		-0-
Net Increase (Decrease) in Fund Balances	222,229	(31,268,847)	-0-	(31,046,618)	84,756	(3,568,966)	-0-	(3,484,210)
Fund Balances, Beginning of Year	1,225,551	195,219,508	-0-	196,445,059	1,140,795	198,788,474	-0-	199,929,269
Fund Balances, End of Year	\$ 1,447,780	\$ 163,950,661	\$ -0-	\$ 165,398,441	\$ 1,225,551	\$ 195,219,508	\$ -0-	\$ 196,445,059

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**RECONCILIATIONS OF GOVERNMENTAL FUNDS STATEMENTS OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO STATEMENTS OF
ACTIVITIES**

For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Net Increase (Decrease) in Fund Balances, Governmental Funds	\$ (31,046,618)	\$ (3,484,210)
<p>Amounts reported for governmental activities in the statements of activities differ from amounts reported in the governmental funds statements of revenue, expenditures, and changes in fund balances due to the following:</p>		
Capital outlays are reported as expenditures in governmental funds. However, in the statements of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. During the years presented, these amounts are as follows:		
Capital outlay	44,866	8,710,324
Less: Depreciation expense	(906,080)	(288,622)
Bond and note issue costs are reported as expenditures in governmental funds. However, in the statements of activities, bond and note issue costs are allocated over the lives of the related debts as amortization expense. During the years presented, these amounts are as follows:		
Amortization expense	(161,979)	(161,979)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statements of net assets. During the years presented, these amounts are as follows:		
Repayment of bonds contract payable	10,477,697	9,879,697
Project costs not incurred in current period	<u>-0-</u>	<u>3,955,897</u>
Net Increase (Decrease) in Net Assets, Governmental Activities	<u>\$ (21,592,114)</u>	<u>\$ 18,611,107</u>

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Purpose

The City of Detroit Downtown Development Authority ("DDA") was created by the Detroit City Council by Ordinance No. 119-H on May 20, 1976, under the provisions of Act 197, Public Acts of Michigan of 1975. DDA was established for the purpose of promoting and developing economic growth in the downtown business district of the City of Detroit, Michigan (the "City"). DDA has been authorized to fund its activities by an ad valorem tax of one mill on real and tangible personal property not exempt by laws in the downtown development district, and the issuance of negotiable revenue and tax increment obligations to finance the development activities of DDA.

DDA may issue tax increment bonds and may not pledge for annual debt service requirements for any one year amounts in excess of 80 percent of the estimated tax increment revenue to be received from the development district for that year, or may pledge solely the tax increments of the project for which the bonds had been issued, and any other revenue for which DDA may specifically pledge.

For financial reporting purposes, DDA is a component unit of the City because the members of DDA's Board of Directors are appointed by the City's mayor and are confirmed by the Detroit City Council. There are no fiduciary funds or component units included in the accompanying financial statements.

Basis of Presentation

The financial statements of DDA consist of government-wide financial statements, which include the statements of net assets and statements of activities, and fund financial statements, which include the balance sheets and statements of revenue, expenditures, and fund balances for governmental funds.

Government-Wide Financial Statements

The government-wide financial statements report information about all of DDA's assets, liabilities, net assets, revenue, and expenses, similar to the financial statements of non-governmental enterprises.

Fund Financial Statements

For purposes of the fund financial statements, the accounts of DDA are organized on the basis of governmental funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. The various funds are summarized by type in the fund financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Fund Financial Statements (continued)

The following funds are used by DDA:

General Fund

The general fund is the general operating fund of DDA. It is used to account for all financial resources other than those required to be accounted for in another fund.

Development Fund

The development fund is used to account for financial resources to be used for the acquisition or construction of capital projects. DDA finances its development plan by capturing the tax proceeds on the increase in assessed value within the tax increment district located within the downtown area. Funds raised from this levy are restricted for use within the tax increment district pursuant to the Tax Increment Financing Plan.

Debt Service Fund

The debt service fund accounts for the servicing of general long-term obligations not being financed by proprietary or similar trust funds.

Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Accordingly, revenue is recorded when earned, and expenses are recorded when incurred. Grants and other revenue intended for use within the development fund are classified as program revenue. All other revenue, including all property tax revenue, is classified as general revenue.

Fund Financial Statements

The fund financial statements are prepared on the modified accrual basis of accounting using the flow of current financial resources as a measurement focus. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual, which is when it is both measurable and available.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (continued)

Fund Financial Statements (continued)

"Available" means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable. In applying the susceptible-to-accrual concept to intergovernmental revenue, the legal and contractual requirements of the numerous individual programs are used as guidance. Monies virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements are reflected as revenue at the time of receipt or earlier if the susceptible-to-accrual criteria are met.

Administration

For the years ended June 30, 2004 and 2003, DDA entered into agreements with Detroit Economic Growth Corporation ("DEGC") for administrative and professional services at an annual cost not to exceed \$1,400,000 and \$935,000 for the years ended June 30, 2004 and 2003, respectively. These expenditures are reflected in administrative expenses for services rendered for each year.

Accounting for Notes Receivable

DDA is in the business of loaning funds to various companies for which, in some cases, the collection process does not begin immediately. In those instances, the collection process may not begin for a number of years. DDA provides a reserve for these loans if and when the loans are deemed to be partially or fully uncollectible. Due to the nature of the collection terms on these loans, recoverability of these loans may be uncertain and, furthermore, may not be evident for a number of years. The ultimate collectibility of these loans is dependent upon the long-term viability of these companies.

Grant Revenue

Grant revenue is recognized when expenses that are reimbursable under an agreement with the funding source are incurred.

Cash and Investments

DDA's cash deposits are held in financial institutions insured as members of the Federal Deposit Insurance Corporation in DDA's name.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Investments (continued)

As of June 30, 2004 and 2003, DDA's carrying amount of deposits and bank balances, and the bank balances covered by federal depository insurance, are as follows:

	<u>2004</u>	<u>2003</u>
Carrying amount of deposits	\$ 1,428,134	\$ 876,722
Bank balances	<u>\$ 2,056,562</u>	<u>\$ 1,263,397</u>
Bank balances covered by federal depository insurance	<u>\$ 210,065</u>	<u>\$ 200,000</u>

Investments are recorded at fair value, based on quoted market prices, which approximates cost. SGAS No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements," requires classification of investments into one of three categories based upon credit risk. Category 1 includes investments that are insured or registered or which are held by DDA or its agent in DDA's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in DDA's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or are held by the counterparty's trust department or agent, but are not in DDA's name. As of June 30, 2004 and 2003, investments are classified as follows:

	<u>2004</u>	<u>2003</u>
Category 2:		
Commercial paper	\$ 4,735,622	\$ 10,298,074
Repurchase agreements	<u>7,892,370</u>	<u>14,172,940</u>
	12,627,992	24,471,014
 Category 1:		
U.S. governmental obligations	<u>104,640,190</u>	<u>100,392,162</u>
	<u>\$ 117,268,182</u>	<u>\$ 124,863,176</u>

Escrow Deposits

Escrow deposits are monies which are held in an escrow account administered by a financial institution designated by DDA and are used specifically for a development project. Interest earnings are either capitalized for future development use or are remitted to DDA upon notice. In both cases, interest earnings are recognized as interest income by DDA. Escrow deposits as of June 30, 2004 and 2003 are for the Monroe Garage project.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unamortized Bond and Note Issue Costs

The costs of issuing the outstanding 1996 and 1998 DDA Tax Incremental bonds (see Note H for details), other than the bond discount, are capitalized on the statements of net assets and are classified as unamortized bond and note issue costs by DDA. They are amortized to financing costs on a ratable basis over the lives of the related debts.

Capital Assets

Capital assets are recorded at historical cost. DDA capitalizes all expenditures for land, buildings, equipment, fixtures, and improvements in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	40 years
Equipment and fixtures	7-25 years
Leasehold improvements	9-40 years

Expenditures for maintenance and repairs are charged to expense. Renewals or betterments which extend the life or increase the value of the properties are capitalized.

Interfund Transactions and Eliminations

Interfund transactions are recorded as a payable by the receiving fund and as a receivable by the advancing fund in the fund financial statements. All interfund transactions and balances have been eliminated in the accompanying financial statements.

Concentration of Credit Risk

Financial instruments which potentially subject DDA to concentrations of credit risk consist principally of cash, investments, and notes receivable.

DDA's cash balances are located in various financial institutions in Detroit, Michigan. The amounts on deposit in each of two financial institutions exceed the \$100,000 federally insured limit. Investments are held in various instruments as described previously in Note A. Concentrations of credit risk with respect to notes receivable are as a result of loaning funds to various businesses, including higher risk businesses, all of which are concentrated the Detroit metropolitan area.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Doubtful Notes Receivable

DDA charges notes receivable to the allowance for doubtful notes receivable when it is probable that a note receivable is impaired (that is, when DDA will be unable to collect all amounts due according to the contractual terms of the agreement). Changes in the present value of an obligation's expected future cash flows from one reporting period to the next are recorded as additions or reductions to the allowance for doubtful notes receivable. DDA also includes in the allowance for doubtful notes receivable a general provision based on DDA's historical recovery of these receivables.

Development Fund Projects

DDA is currently involved in several major projects, which primarily include the following:

- Riverfront Residential Project
- Trappers Alley
- Madison Center
- Congress/First Street Hotel Development - Cobo Hall Expansion
- Theater District
- Annis Fur Building Development
- International Hotel
- Ramada/Leland Downtown Hotel
- Harmonie Park Project
- Merchants Row
- Michigan Opera Theatre
- Hilton Garden Inn
- Music Hall Center for the Performing Arts
- Stadia Complex
- Lower Woodward Initiative
- Campus Martius
- East Riverfront District
- Riverfront Promenade
- Kales Building
- Development Financing Small Business Loan Transactions Program:
 - On Wheels, Inc.
 - Rootlevel
 - SVM Development Corporation
 - Cloud Nine Entertainment
 - Fieldstone Properties
 - Opus to Go, L.L.C.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Development Fund Projects (continued)

Development Financing Small Business Loan Transactions Program (continued):

The Pub in Harmonie Park

Seldom Blues

Brush Street, L.L.C.

Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to classifications used in 2004.

NOTE B - NOTES RECEIVABLE

Notes receivable as of June 30, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
An Urban Development Action Grant ("UDAG") promissory note dated August 3, 1982, secured by a mortgage, non-interest bearing, payable in annual installments contingent upon available cash flow. The entire amount is due on the last day of loan year 40.	\$ 17,278,100	\$ 17,278,100
A mortgage note over 40 years, dated December 27, 1983, secured by property, interest at 12 percent. The note is payable interest only, to the extent there is sufficient cash flow, for the first 20 years, beginning January 2, 1987, and fully amortized over the remaining 20 years.	2,800,000	2,800,000
A UDAG promissory note dated September 1, 1984, secured by a mortgage; payable interest only (at 11 percent) through October 1, 1990, payable with interest and principal four times annually in the amount of \$122,335 through February 1, 2011, at which time the entire balance and accrued interest is due. The first payment was due January 1, 1988.	3,250,000	3,250,000

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE B - NOTES RECEIVABLE (CONTINUED)

	<u>2004</u>	<u>2003</u>
A UDAG promissory note dated July 6, 1992, secured by a mortgage. There is no fixed interest rate, but annual payments equal to 15 percent of net annual cash flow are to be made as contingent interest. The entire amount is due 15 years from the completion date of the loan, or no later than August 30, 2008.	\$ 1,555,000	\$ 1,555,000
A promissory note dated December 1, 1989, secured by a mortgage, payable over 15 years, ending on December 21, 2004, on which date a balloon payment of the principal balance shall be due and payable. The loan shall not require periodic payments of principal or fixed payments of interest.	9,250,000	9,250,000
A promissory note dated October 16, 1987, secured by property, payable in annual installments based on principal only commencing on December 31, 1992, with the entire remaining principal balance due on December 31, 2007. Interest shall accrue at two percent above Bank One's prime rate only upon an event of default, as defined by the loan agreement.	1,087,251	1,537,251
A promissory note dated August 28, 1988, secured by property, amended on December 9, 1998 and on November 19, 2003. Under the amended terms, interest accrues at a rate of six percent per annum. Principal and interest payments are due monthly. Payments are based upon a 30-year amortization schedule, with a balloon payment due on December 15, 2008 of all outstanding principal and interest.	1,136,227	1,139,860
A UDAG promissory note dated July 6, 1992, secured by a mortgage. There is no fixed interest rate, but annual payments equal to 15 percent of net annual cash flow are to be made as contingent interest. The entire amount is due 15 years from the completion date of the loan, or no later than August 30, 2008.	1,425,000	1,425,000

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE B - NOTES RECEIVABLE (CONTINUED)

	<u>2004</u>	<u>2003</u>
A promissory note (revolving loan) dated February 13, 1990, as amended May 29, 1997 and again amended March 1, 1999, secured by a mortgage on various properties. The note does not bear interest. The loan is to be repaid in 19 equal annual installments of \$177,500 commencing on December 31, 1999 and continuing through December 31, 2017, with one final installment of \$27,500 due on December 31, 2018.	\$ 2,512,500	\$ 2,690,000
A promissory note dated March 29, 1995, secured by a mortgage. No fixed interest shall be charged on the loan. Contingent interest shall be due and payable annually based on the net annual cash flow percentage and the net proceeds percentage. There is no requirement to make principal payments during the loan term. By December 31, 2011, the note shall be payable in one balloon payment.	1,000,000	1,000,000
A UDAG promissory note dated February 25, 1988, secured by a mortgage, payable over 15 years. Interest payments are deferred and shall not accrue for years one and two. Interest only is payable in years three through five, and the repayment of principal and interest thereafter shall be payable in monthly installments based on a 25-year amortization schedule with a balloon payment in year 15 sufficient to pay off the remaining principal balance plus accrued interest thereon. Interest is payable at three percent per annum. The project was completed July 31, 1992.	3,821,903	3,965,027
A final promissory note dated July 9, 1991, secured by a mortgage and security agreement. The bankruptcy confirmation order, dated September 27, 1993, restricted the payment on debts so that DDA and the City shall share the following payments on a prorata basis: years one through five - no payments; years six and seven - \$30,000 per year; years eight through 28 - \$60,000 per year; and years 29 and 30 - \$90,000 per year.	979,648	979,648

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE B - NOTES RECEIVABLE (CONTINUED)

	<u>2004</u>	<u>2003</u>
A promissory note dated January 29, 1992, secured by a mortgage. No fixed interest shall be charged on the loan. Contingent interest shall be due and payable annually based on the net annual cash flow percentage and the net proceeds percentage. There is no requirement to make principal payments during the loan term. By August 16, 2007, the note shall be payable in one balloon payment sufficient to pay off the entire principal balance and any interest due.	\$ 900,000	\$ 900,000
A promissory note dated May 30, 2003 for residential loft and ground floor retail development. A payment of \$3,750,000 is due seven years from project closing, with the balance to be repaid via single business tax credits or sale proceeds.	4,750,000	4,750,000
A UDAG promissory note dated July 6, 1992, secured by a mortgage. There is no fixed interest rate, but annual payments equal to 15 percent of net cash flow are to be made as contingent interest. The entire amount is due 15 years from the completion date of the loan, or no later than August 30, 2008.	1,065,000	1,065,000
A promissory note dated November 9, 1995, secured by a second position mortgage. The term of the loan is for 15 years with no interest. No principal payments are required until the loan matures. Contingent interest due annually on the loan equals 15 percent of net annual cash flow and 15 percent of net proceeds from refinancing or sale.	1,440,000	1,440,000
A promissory note dated October 11, 1995, secured by a second position assignment of fee income and a third mortgage on the related real property. Payments of interest only are due for the first two years of this loan; thereafter, fully amortizing principal and interest payments are due for the next 13 years. The note bears an interest rate of 6.5 percent per annum.	209,604	232,947

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE B - NOTES RECEIVABLE (CONTINUED)

	<u>2004</u>	<u>2003</u>
A Small Business Loan Transactions Program promissory note dated January 29, 1992, secured by a mortgage and a personal guaranty agreement. No fixed interest shall be charged on the loan. Contingent interest shall be due and payable annually based on the net annual cash flow percentage and the net proceeds percentage. There is no requirement to make principal payments during the loan term. By August 16, 2007, the note shall be payable in one balloon payment sufficient to pay off the entire principal balance and any interest due.	\$ 300,000	\$ 300,000
A promissory note dated June 21, 2000, secured by restaurant equipment and the personal guarantees of the owners. Payments of interest only are due monthly on the loan. The loan bears an interest rate of six percent per annum, amortized over 10 years, and is due five years from the date of the note.	84,794	84,794
A promissory note dated August 6, 1999, secured by a second lien on receivables, a second position on all asset filings, a second assignment of a lease, and the personal guarantees of the principals of the business. This is a fully amortizing 10-year loan. Interest is payable monthly in arrears and accrues from the date of closing at a rate of five percent per annum.	118,953	134,844
A promissory note dated April 17, 2003, secured by a third mortgage and a corporate guaranty. Payments of interest only are due through May 1, 2005. Payments of principal and interest are due monthly beginning June 1, 2005 and continuing through April 1, 2018. The loan bears an interest rate of five percent per annum, with a balloon payment of the remaining principal balance plus interest due on May 1, 2018.	750,000	750,000

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE B - NOTES RECEIVABLE (CONTINUED)

	<u>2004</u>	<u>2003</u>
A promissory note dated January 18, 2001, secured by restaurant equipment and the personal guarantees of the owners. Payments of principal and interest are due monthly on the loan. The loan bears an interest rate of six percent per annum, with a balloon payment of the remaining principal balance plus interest due on January 1, 2003.	\$ 191,486	\$ 191,486
A term note dated April 1, 2003, secured by a second mortgage and personal and corporate guarantees. Interest accrues at various rates. At the close of the permanent loan, the borrower shall make a payment of accrued interest. Payments of interest only will be made quarterly until June 30, 2007. Quarterly payments of principal and interest will follow until June 30, 2010, when a balloon payment of the outstanding principal and interest balance will be due.	4,042,692	4,042,692
A promissory note dated June 2, 1999, secured by a second mortgage. The note was interest-free, with no scheduled principal payments for 18 months. Thereafter, payments that were based on a 15-year amortization schedule and an interest rate of five percent per annum were due monthly for the next 59 months. In month 78, the remaining outstanding principal balance was due. This loan was written off as of June 30, 2004.	-0-	470,455
A promissory note dated October 27, 2000, secured by real property and the personal guarantees of the owners. Payments of principal and interest are due monthly on the loan. The loan bears an interest rate of five percent per annum, with a balloon payment of the remaining principal balance plus interest due on November 1, 2005.	184,220	188,911

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE B - NOTES RECEIVABLE (CONTINUED)

	<u>2004</u>	<u>2003</u>
A promissory note dated April 5, 2002, secured by real property and the personal guarantees of the owners. Payments of interest only are due for the first six months, followed by monthly payments of principal and interest. The loan bears an interest rate of five percent per annum, with a balloon payment of the remaining principal balance plus interest due on April 1, 2012.	\$ 193,374	\$ 197,619
A promissory note for construction purposes, dated June 26, 2002, secured by real property. No fixed interest is charged on the loan. Repayment is due seven years from the issuance of a final certificate of occupancy for the project, or seven years from the date the borrower converts the construction portion of the bank debt into a permanent loan.	500,000	500,000
A promissory note dated March 20, 2002, secured by the borrower's accounts receivable, other assets, and the personal guarantees of the owners. Payments of principal and interest are due monthly on the loan. The loan bears an interest rate of four percent per annum, with a final payment date of April 1, 2007.	166,258	166,258
A promissory note dated May 23, 2002, secured by corporate guarantees and the personal guarantees of the owners. No interest accrues, and no payments are due for the first 12 months of the note. Commencing June 1, 2003, payments of principal and interest are due monthly on the loan. The loan bears an interest rate of four percent per annum, with a final payment date of May 1, 2009.	172,458	200,000
A promissory note dated August 30, 2001, secured by real property and the personal guarantee of the owner. Payments of principal and interest are due monthly on the loan. The loan bears an interest rate of five percent per annum, with a balloon payment of the remaining principal balance plus interest due on September 1, 2006.	112,832	119,349

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE B - NOTES RECEIVABLE (CONTINUED)

	<u>2004</u>	<u>2003</u>
A construction loan disbursed over the course of the year ended June 30, 2004. The loan will be converted to a permanent loan on the earlier of September 2, 2006 or a conversion date whereby all permanent loan conditions have been met. Repayment of principal will be due on the earlier of September 2, 2013 or seven years from the conversion date.	\$ 1,250,000	\$ -0-
A promissory note, dated May 5, 2004, secured by equipment and the personal guarantee of the owner. Payments of interest only are due for the first 12 months of the loan. After that, payments of principal and interest will be made monthly through and including May 1, 2011. Interest accrues at the rate of four percent per annum.	400,000	-0-
DEGC issued a promissory note, dated December 27, 1983; DDA purchased these notes from DEGC on June 25, 1987. This note bears annual interest of 11.25 percent and is secured by the borrower's property. DDA has strong concerns regarding the recovery of this loan as this project has had continuous operating losses. The current underutilization of the space (only two floors of the five-story structure are being used) adds to these concerns. Unpaid interest has been accrued on this loan.	<u>982,170</u>	<u>982,170</u>
	63,909,470	63,586,411
Less: Allowance for doubtful notes receivable	<u>(32,013,245)</u>	<u>(23,408,773)</u>
Net Notes Receivable	<u>\$ 31,896,225</u>	<u>\$ 40,177,638</u>

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE B - NOTES RECEIVABLE (CONTINUED)

Accrued interest receivable on these notes receivable as of June 30, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Accrued interest receivable	\$ 3,479,482	\$ 3,199,841
Less: Allowance for doubtful interest receivable	<u>(2,309,683)</u>	<u>(2,199,189)</u>
Net Accrued Interest Receivable	<u>\$ 1,169,799</u>	<u>\$ 1,000,652</u>

Changes in the allowances for doubtful notes and interest receivable are as follows for the years ended June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Balance, beginning of year	\$ 25,607,962	\$ 20,149,365
Additions	9,185,421	5,458,597
Less: Write-off of uncollectible notes receivable	<u>(470,455)</u>	<u>-0-</u>
Balance, End of Year	<u>\$ 34,322,928</u>	<u>\$ 25,607,962</u>

Because of the long-term nature of these notes receivable and the uncertainty of the time of collection on many of these notes receivable, the fair value of these notes receivable as of June 30, 2004 and 2003 cannot be readily determined.

NOTE C - PROPERTY TAXES

DDA finances its general and administrative operations with the proceeds of a one-mill levy on the assessed value of the Downtown Development District. A portion of this fund has been designated by the Board of Directors to meet existing contracts outstanding.

Effective July 1, 1978, DDA was authorized to finance its development plan by capturing the tax proceeds on the increases in the assessed value on real and personal property within the tax increment district located within the downtown development area. Funds raised from this levy are restricted for use within the tax increment district.

On July 19, 1978, DDA entered into an agreement with the Wayne County Board of Commissioners to exclude certain proceeds of the tax increment fund which have been previously designated for certain Wayne County operational and construction activities.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE C - PROPERTY TAXES (CONTINUED)

The City levies property taxes on July 1 of each year. Property taxes are due to the City on August 15 of each year, but may be paid in two installments, which are due on August 15 and December 31 of each year. Liens are assessed on unpaid taxes on July 1 of each year. The City remits collected property taxes to DDA in December and June of each year.

Property taxes receivable and property tax advances as of June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Tax increment district and one-mill levy taxes receivable	\$ 4,795,161	\$ 13,629,506
Less: Allowance for doubtful taxes receivable	<u>(46,845)</u>	<u>(46,846)</u>
Net Property Taxes Receivable	<u>\$ 4,748,316</u>	<u>\$ 13,582,660</u>
Tax increment district tax payments received in advance	<u>\$ 6,410,873</u>	<u>\$ 500,000</u>

The allowance for doubtful taxes receivable is based upon the historical uncollectible experience for total real and personal property tax assessments plus allowances for other specific accounts for which collection is uncertain.

In 1994, State of Michigan (the "State") voters passed Proposal A, which affected school property tax revenue. As a result, Tax Increment Plans are only allowed to capture school tax revenue to the extent necessary to cover existing debt service, and the excess must be returned to the State. An audit of the years ended June 30, 1995 through June 30, 2000 resulted in DDA refunding \$1,246,169 in property taxes to the State during the year ended June 30, 2003. An audit of subsequent years has not been completed as of June 30, 2004; therefore, an estimated allowance has been recorded for those years.

Property taxes recorded in the development and debt service funds for the years ended June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Tax increment district revenue	\$ 34,212,876	\$ 32,429,838
Less:		
Refund for the years ended June 30, 1995 through June 30, 2000	-0-	(1,246,169)
Provision for estimated future refunds	<u>(5,910,873)</u>	<u>(500,000)</u>
	<u>\$ 28,302,003</u>	<u>\$ 30,683,669</u>

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE D - CAPITAL ASSETS

Nondepreciable capital asset activity for the years ended June 30, 2004 and 2003 is as follows:

	<u>Land</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance, July 1, 2002	\$ 7,544,670	\$ 17,923,299	\$ 25,467,969
Acquisitions		8,700,324	8,700,324
Less: Completed construction		(26,623,623)	(26,623,623)
Balance, June 30, 2003	7,544,670	-0-	7,544,670
Balance, June 30, 2004	\$ 7,544,670	\$ -0-	\$ 7,544,670

Depreciable capital asset activity for the years ended June 30, 2004 and 2003 is as follows:

	<u>Buildings</u>	<u>Equipment and Fixtures</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Cost:				
Balance, July 1, 2002	\$ -0-	\$ 95,352	\$ 50,000	\$ 145,352
Acquisitions	26,623,623	10,000		26,633,623
Balance, June 30, 2003	26,623,623	105,352	50,000	26,778,975
Acquisitions		44,866		44,866
Balance, June 30, 2004	\$ 26,623,623	\$ 150,218	\$ 50,000	\$ 26,823,841
Accumulated Depreciation:				
Balance, July 1, 2002	\$ -0-	\$ 75,531	\$ 21,458	\$ 96,989
Depreciation expense	277,551	9,821	1,250	288,622
Balance, June 30, 2003	277,551	85,352	22,708	385,611
Depreciation expense	887,454	17,376	1,250	906,080
Balance, June 30, 2004	\$ 1,165,005	\$ 102,728	\$ 23,958	\$ 1,291,691
Net Depreciable Capital Assets:				
Balance, June 30, 2003	\$ 26,346,072	\$ 20,000	\$ 27,292	\$ 26,393,364
Balance, June 30, 2004	\$ 25,458,618	\$ 47,490	\$ 26,042	\$ 25,532,150

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE E - DUE FROM CITY OF DETROIT

DDA has a loan agreement with the City, under which DDA loans funds to the City to cover the Cobo Hall Expansion Project and operations of the Downtown People Mover System. The loan is unsecured and bears no interest, and will be repaid by the City as general operating funds become available. No allowance is considered necessary as of June 30, 2004 or 2003.

NOTE F - LAND CONTRACT RECEIVABLE

DDA entered into a land contract, dated December 9, 1999 and amended February 13, 2001 and December 14, 2001, in which DDA sold several parcels of land for loft developments. Payment on the contract is due in full on or before August 1, 2007. No interest will be charged if payment is received in full by the due date.

NOTE G - OTHER ASSETS

Other assets as of June 30, 2004 and 2003 consist of land acquired for the development of the following projects:

	<u>2004</u>	<u>2003</u>
Washington Boulevard	<u>\$ 736,003</u>	<u>\$ 736,003</u>

NOTE H - LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2004 and 2003 consist of the following:

Contract Payable

The contract payable consists of amounts due to Amerivision Corporation under a UDAG used to partially finance development of the Trappers Alley Project. The Trappers Alley Project was financed in part with \$2,800,000 of UDAG funds received by the City and administered by DDA. The funds were originally loaned to the developer and are to be repaid, contingent upon cash flow, in installments over 40 years. The repayment proceeds will be used to liquidate DDA's obligation.

Bonds Contract Payable

On August 1, 1989, the City issued Series 1989A tax-exempt bonds for \$15,225,000 and Series 1989B taxable bonds for \$71,000,000 (collectively, the "1989 bonds"), for an aggregate total of \$86,225,000.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE H - LONG-TERM LIABILITIES (CONTINUED)

Bonds Contract Payable (continued)

On April 18, 1996, DDA issued Series 1996A taxable bonds for \$75,014,000, Series 1996B tax-exempt bonds for \$13,330,000, Series 1996C tax-exempt bonds for \$64,883,198, and Series 1996D tax-exempt bonds for \$14,185,000 (collectively, the "1996 bonds"), for an aggregate total of \$167,412,198.

On September 1, 1998, DDA issued Series 1998A tax-exempt bonds for \$68,900,000, Series 1998B taxable bonds for \$32,195,000, and Series 1998C junior lien bonds for \$21,425,000 (collectively, the "1998 bonds"), for an aggregate total of \$122,520,000.

The principal and interest on the bonds are primarily payable from and secured by certain incremental property tax revenues to be received by DDA from Development Area No. 1 within the downtown business district (see Note A). The bonds additionally are payable from, and are secured by, the Debt Service Reserve Fund and other funds pledged for that purpose under the general bond resolution.

A portion of the 1996 bond proceeds, \$87,996,800, was put into an escrow account to repay the 1989 bonds. A portion of the 1998 bond proceeds, \$65,124,175, was also put into an escrow account to repay the Series 1996C (partial refund) and the Series 1996D bonds. It is the escrow agent's responsibility for monitoring and making the required debt service payments. These payments are made from the debt service fund.

Long-term liability activity for the years ended June 30, 2004 and 2003 is as follows:

	<u>Bonds Contract Payable</u>			
	<u>Contract Payable</u>	<u>Gross</u>	<u>Bond Discount</u>	<u>Net</u>
Balance, July 1, 2002	\$ 2,800,000	\$ 196,061,198	\$ 1,703,640	\$ 194,357,558
Less:				
Repayments		(9,090,000)		(9,090,000)
Amortization			(70,303)	70,303
Balance, June 30, 2003	<u>\$ 2,800,000</u>	<u>\$ 186,971,198</u>	<u>\$ 1,633,337</u>	<u>\$ 185,337,861</u>

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE H - LONG-TERM LIABILITIES (CONTINUED)

	Contract Payable	Bonds Contract Payable		
		Gross	Bond Discount	Net
Balance, July 1, 2003	\$ 2,800,000	\$ 186,971,198	\$ 1,633,337	\$ 185,337,861
Less:				
Repayments		(9,950,000)		(9,950,000)
Amortization			(70,303)	70,303
Balance, June 30, 2004	\$ 2,800,000	\$ 177,021,198	\$ 1,563,034	\$ 175,458,164
Amounts Due Within One Year:				
June 30, 2003	\$ -0-	\$ 9,950,000	\$ 70,303	\$ 9,879,697
June 30, 2004	\$ -0-	\$ 10,548,000	\$ 70,303	\$ 10,477,697

Maturities of long-term liabilities are as follows as of June 30, 2004:

For the Years Ending June 30	Principal	Interest	Total
2005	\$ 10,477,697	\$ 12,514,456	\$ 22,992,153
2006	11,109,697	11,877,772	22,987,469
2007	11,794,697	11,191,927	22,986,624
2008	12,534,697	10,454,338	22,989,035
2009	11,924,697	12,187,627	24,112,324
2010-2014	43,530,258	49,101,230	92,631,488
2015-2019	28,590,601	45,256,453	73,847,054
2020-2024	27,918,911	43,445,875	71,364,786
2025-2029	20,376,909	25,302,630	45,679,539
	\$ 178,258,164	\$ 221,332,308	\$ 399,590,472

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004 and 2003

NOTE I - OTHER LIABILITIES

Other liabilities as of June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Escrow deposits due Leland House Limited Partnership Company, utilized by DDA to pay tax and insurance obligations related to the Ramada/Leland Hotel project	<u>\$ 16,870</u>	<u>\$ 16,800</u>

NOTE J - RISK MANAGEMENT

DDA has insurance policies covering its directors and officers. It also has general liability insurance and property insurance covering its various assets. At the request of the Board of Directors, DDA has obtained two excess general liability policies in addition to the original policy to ensure sufficient coverage. Due to the extent of insurance that DDA maintains, the risk of loss to DDA, in management's opinion, is minimal.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)

For the Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance with Final Budget</u>
Revenue:				
Property taxes	\$ 810,000	\$ 810,000	\$ 799,162	\$ (10,838)
Other revenue	395,000	395,000	674,622	279,622
Total Revenue	<u>1,205,000</u>	<u>1,205,000</u>	<u>1,473,784</u>	<u>268,784</u>
Expenditures:				
Current:				
Administrative and operating expenses	2,119,000	2,119,000	1,857,702	261,298
Professional fees	335,000	335,000	346,987	(11,987)
Total Expenditures	<u>2,454,000</u>	<u>2,454,000</u>	<u>2,204,689</u>	<u>249,311</u>
Excess (Deficiency) of Revenue over Expenditures	<u>(1,249,000)</u>	<u>(1,249,000)</u>	<u>(730,905)</u>	<u>518,095</u>
Other Financing Sources (Uses):				
Interfund transfers	1,000,000	1,000,000	953,134	(46,866)
Net Increase (Decrease) in Fund Balance	<u>\$ (249,000)</u>	<u>\$ (249,000)</u>	<u>\$ 222,229</u>	<u>\$ 471,229</u>